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BY THE U.S. GENERAL ACCOUNTING OFFICE

Report To The Administrator General Services Administration

First Year Implementation ~~Of~~ The Federal Managers' Financial Integrity Act ~~By The General Services Administration~~

GSA

GAO conducted a review of 22 federal agencies' efforts to implement the Federal Managers' Financial Integrity Act of 1982. The Act was intended to help reduce fraud, waste, and abuse across the spectrum of federal government operations through annual agency self-assessment of its internal controls and accounting systems.

This report highlights the progress made and problems encountered by the General Services Administration (GSA) in its first year of experience with this new Act. The report focuses on GSA's evaluation of internal controls, review of accounting systems, and the improvements being made as a result of identified problems. GSA agreed with GAO's proposals to improve the agency's evaluation processes.

UNITED STATES GENERAL ACCOUNTING OFFICE

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UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

GENERAL GOVERNMENT
DIVISION

B-202205

The Honorable Ray Kline
Acting Administrator of
General Services

Dear Mr. Kline:

This report describes the General Services Administration's (GSA) progress in implementing the Federal Managers' Financial Integrity Act and discusses various steps GSA can take to build on that progress.

In commenting on a draft of this report, you concurred with our proposals and foresaw little difficulty in taking the actions necessary to meet them. Because of your responsiveness to our proposals and the problems inherent in starting up a new effort of this kind, we are not including recommendations in this report. We intend, however, to monitor GSA's progress in addressing our proposals as part of our continuing review of the Act's implementation.

You also commented that our draft report contained many inaccurate and misleading statements. The examples cited in your letter and follow up discussions with the Office of Program Oversight indicated that the problem was more a question of tone and interpretation than factual accuracy. To the extent appropriate, we have revised our report language to respond to that concern.

We are sending copies of this report to appropriate congressional committees, the Office of Management and Budget, and other interested parties.

Sincerely yours,

W. J. Anderson

William J. Anderson
Director

GENERAL ACCOUNTING OFFICE
REPORT TO THE ADMINISTRATOR
GENERAL SERVICES ADMINISTRATION

FIRST YEAR IMPLEMENTATION OF THE FEDERAL MANAGERS' FINANCIAL INTEGRITY ACT BY THE GENERAL SERVICES ADMINISTRATION

Although the need for improved internal controls over government operations has long been recognized, development of effective systems has been slow. In the past decade, the government has experienced a rash of wrongful occurrences commonly called fraud, waste, and abuse. To address these concerns, the Congress enacted the Federal Managers' Financial Integrity Act of 1982. The Act requires each agency to prepare an annual report to the President and the Congress by December 31, stating whether its internal controls meet the Comptroller General's standards for safeguarding the government's funds, property, and other assets, and listing any material weaknesses and corrective action plans. A separate report is required stating whether accounting systems conform to the Comptroller General's principles and standards for proper accounting of financial and other resources.

GAO reviewed the General Services Administration's (GSA) first year progress in implementing the Act and its reporting on the status of internal controls and accounting systems.

GSA ESTABLISHED A FOUNDATION TO REVIEW AND IMPROVE INTERNAL CONTROLS

The Act requires the Office of Management and Budget (OMB) to issue guidelines for agencies to use in determining whether their internal controls meet the Comptroller General's standards. GSA followed OMB's guidance and

--established a central authority for providing leadership to implement the Act;

--held individual managers accountable for internal control through their annual performance contracts;

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--identified all its programs and functions; assessed their vulnerabilities to fraud, waste, and abuse; and ranked them for further review;

--reviewed the most vulnerable operations to list known weaknesses and assess their significance; and

--required its senior managers to provide assurances on the adequacy of internal controls. (See pp. 6 to 12.)

GSA's first annual report on the condition of its internal controls identified 40 weaknesses requiring corrective action. Those weaknesses included a lack of security in automated information systems and uncorrected fire, safety, and health deficiencies in government space. Ninety-eight other problems were identified during GSA's evaluation process but were not considered serious enough to be included in the report. GSA plans to monitor the correction of all weaknesses. (See pp.12 and 13.)

Detailed reviews of internal controls are an important part of OMB's evaluation guidance. GSA conducted seven pilot reviews to help it develop a methodology. It has scheduled 54 reviews for 1984. (See pp. 10 and 13.)

Parts of the internal control evaluation process need to be strengthened

As indicated in the preceding section, GSA has made progress in implementing the Act. Its first year efforts included various assessments aimed at identifying weaknesses known by managers, assessing their significance, and planning corrective actions. As might be expected in an initial effort of this magnitude, GSA had some difficulty in implementing OMB's guidelines. GAO identified steps that GSA should take to improve the efficiency of its evaluation process and better assure quality results. Areas needing improvement include:

--Focus of evaluations. GSA's list of programs and functions for which internal controls were to be evaluated was not well defined, and the list changed significantly during the evaluation process from about 1,100 to about 800, causing confusion and some loss of accountability. (See pp. 9, 10, and 15.)

--Crosscutting operations. Programs and functions that cut across GSA's organizational boundaries, such as automatic data processing systems, were assessed throughout the agency but the pieces were not pulled together for a complete evaluation of the activity. (See p. 16.)

--Vulnerability assessments. Information on audit findings and program resources and input from regional managers who operate programs were collected after vulnerability assessments were completed. Including this information in the assessments would provide a more reliable basis for deciding which activities need to be further analyzed. (See p. 17.)

--Documentation. GSA's evaluation forms did not provide for recording the rationale behind the responses, which reduced their usefulness for analyzing issues or concerns. (See p. 18.)

--Monitoring. Although various features of the process provided some quality control, the controls were not fully effective. GAO identified some data weaknesses, such as inconsistent or missing information, that can be attributed, in part, to the lack of clearly defined review responsibilities. (See p. 20.)

--Guidance. GSA has not provided managers with a good understanding of what GSA is trying to achieve, its overall process, and the managers' role. Technical guidance in areas such as vulnerability assessments and ADP controls is needed to better assure quality work. (See p. 23.)

MORE DETAILED REVIEW OF ACCOUNTING SYSTEMS NEEDED

In October 1983, GSA began reviewing its accounting systems for compliance with the

Comptroller General's principles and standards to meet the annual reporting requirement. According to GSA's Inspector General, the agency has 2 systems that produce official accounting records and 36 related systems. GSA did not have time to uniformly review all those systems or test their operation. Instead, GSA reviewed its accounting policies for the 16 most significant systems and asked managers and the Inspector General to identify known weaknesses in any of GSA's systems. (See pp. 30 to 32.)

In its annual report, GSA concluded its systems did not fully conform with the principles and standards. GSA reported material deviations in system documentation and financial data requirements and noted other problems, such as lack of clear-cut financial management responsibilities and outdated computer technology, that it considered less significant. GSA has developed plans for correcting those weaknesses. (See p. 32.)

GSA needs to build on its start to review accounting systems by establishing responsibilities throughout the agency for meeting the annual reporting requirement and by expanding its evaluation efforts to provide a better basis for determining if its accounting systems comply with the Comptroller General's principles and standards. (See pp. 34 to 36.)

AGENCY COMMENTS

In a draft of this report, GAO made several proposals to strengthen GSA's reviews of internal controls and accounting systems. The proposals addressed the broad areas of clarifying responsibilities for the reviews, improving evaluation coverage and quality controls over the efforts, familiarizing managers with the overall review processes, and providing improved technical guidance. (See pp. 26 and 37.)

In its April 16, 1984, comments on that draft, GSA said it generally concurred with GAO's proposals and expected little difficulty in taking the actions necessary to meet them. GSA also referred to "many inaccurate and misleading areas" in GAO's draft report. Based on the two examples cited by GSA and follow-up discussions with GSA officials, the problems centered around tone and interpretation rather than factual accuracy. To the extent GAO felt appropriate, the final report has been revised to respond to GSA's concerns. (See pp. 27 and 37.)

Because of GSA's responsiveness to GAO's specific proposals and the problems inherent in beginning to implement the Act, GAO has not included any recommendations in this report. GAO plans, however, to monitor GSA's progress in these areas as part of its continuing review of federal agencies' implementation of the Federal Managers' Financial Integrity Act.

Contents

ABBREVIATIONS

ADP	Automatic data processing
AOU	Assessable operating unit
CG	Comptroller General
FSS	Office of Federal Supply and Services
GAO	General Accounting Office
GSA	General Services Administration
IG	Office of Inspector General
NARS	National Archives and Records Service
OMB	Office of Management and Budget
PBS	Public Buildings Service

CHAPTER 1

INTRODUCTION

Responding to continuing disclosures of fraud, waste, and abuse across a wide spectrum of government operations, which were largely attributable to serious weaknesses in agencies' internal controls, the Congress in 1982 enacted the Federal Managers' Financial Integrity Act (31 U.S.C. 3512(b) and (c)). The Act strengthens the requirement of the Accounting and Auditing Act of 1950 that executive agencies establish and maintain systems of accounting and internal control to provide effective control over, and accountability for, all funds, property, and other assets for which the agencies are responsible (31 U.S.C. 3512(a)(3)).

We believe that full implementation of the Financial Integrity Act will enable the heads of federal departments and agencies to identify their major internal control and accounting problems and improve controls essential to the development of an effective management control system and a sound financial management structure for their agencies. To achieve these ends the Act requires

--the Comptroller General (CG) to prescribe standards for federal agencies' internal control systems. The CG issued these standards in June 1983.

--the Office of Management and Budget (OMB) to issue guidelines for federal departments and agencies to use in evaluating their internal control systems. These guidelines were issued in December 1982.

--under section 2, that each agency establish and maintain its internal controls in accordance with the standards prescribed by the CG, so as to reasonably assure that (1) obligations and costs comply with applicable law; (2) all funds, property, and other assets are safeguarded against waste, loss, unauthorized use, or missappropriation, and (3) revenues and expenditures applicable to agency operations are recorded and properly accounted for.

--each agency to evaluate its internal control systems and report annually, by December 31, to the President and to the Congress on whether their systems comply with the internal control objectives set forth in the Act and with the standards prescribed by the CG. The Act also provides for agency reports to identify the material weaknesses involved and describe the plans for corrective action.

--under section 4, that each agency prepare a separate annual report on whether its accounting systems conform to principles, standards, and related requirements prescribed by the CG. The standards as previously issued under the Accounting and Auditing Act of 1950 were again specified in April 1983.

This report on the General Services Administration (GSA) is one of 22 GAO reports on federal agencies' efforts to implement the Financial Integrity Act during the first year. Chapter 2 discusses our evaluation of GSA's efforts to review its internal controls, and chapter 3 discusses our review of the agency's efforts to check its accounting systems for compliance with principles and standards. GSA's first reports under the Act were issued on January 20, 1984, and covered fiscal year 1983.

GUIDANCE FOR IMPLEMENTING THE ACT

The accounting principles and standards specified by the CG in April 1983 were not new. The Accounting and Auditing Act of 1950 authorized the CG to prescribe accounting principles, standards, and related requirements for executive agencies. They were set forth in Title 2 of GAO's Policy and Procedures Manual for Guidance of Federal Agencies. The April 1983 guidance organized Title 2 into 16 sections, such as financial reporting and fund control, and was issued to help agencies prepare the annual reports on the status of their accounting systems.

Although the CG had previously issued internal control guidance since the 1950 Act, development of effective systems was slow. The June 1983 internal control standards emphasize that ultimate responsibility for good internal controls rests with agency management. The standards define the minimum level of quality acceptable for internal control systems and constitute the criteria against which systems are to be evaluated in preparing annual reports. The 12 standards apply to both program management and the traditional financial management areas and include:

--Reasonable assurance. Internal control systems are to provide reasonable assurance that the objectives of the systems will be accomplished.

--Control objectives. Internal control objectives are to be identified or developed for each agency activity and are to be logical, applicable, and reasonably complete.

--Control techniques. Internal control techniques are to be effective and efficient in accomplishing internal control objectives.

--Documentation. Internal control systems and all transactions and other significant events are to be clearly documented, and the documentation is to be readily available for examination.

--Separation of duties. Key duties and responsibilities in authorizing, processing, recording, and reviewing transactions should be separated among individuals.

--Prompt resolution of audit findings. Managers are to promptly evaluate findings and recommendations reported by auditors, determine proper actions in response to audit findings and recommendations, and complete, within established time frames, all actions that correct or otherwise resolve the matters brought to management's attention.

OMB's December 1982 guidelines provide a basic approach for agencies to follow in evaluating, improving, and reporting on their internal control systems. In those guidelines OMB recommends a process for agencies to follow in evaluating their internal controls. That process calls for an agency, among other things, to

--assign internal control responsibilities to selected senior officials throughout the agency, including one who will be responsible for coordinating the overall agency-wide effort;

--develop an inventory of assessable units by segmenting itself into organizational components and then identifying the programs and administrative functions conducted in each component;

--conduct vulnerability assessments to identify the susceptibility of each assessable unit to fraud, waste, abuse, or mismanagement; and

--use the vulnerability assessment results and other information, such as resource availability and management priorities, to determine an appropriate course of action, such as improving procedures, conducting training, requesting an audit, or performing an internal control review. The latter is a detailed examination of a system of internal control to determine whether adequate control measures exist and are implemented to prevent or detect the occurrence of potential risks cost effectively.

GSA's MISSION

GSA provides a variety of basic services to other government agencies that range from managing and procuring property, including related policy direction and guidance, to stockpiling strategic materials. Its estimated fiscal year 1984 obligations are $6.5 billion. The agency consists of 5 operating services, several supporting staff offices, and 11 regional offices.

--The Public Buildings Service (PBS) builds, leases, operates, maintains, repairs, and protects most federally controlled buildings. As the largest GSA service, it is responsible for about 230 million square feet of space in 7,600 federally owned or leased buildings.

--The Office of Federal Supply and Services (FSS) operates a government-wide service and supply system. About $3 billion worth of supplies, materials, and services are procured yearly. In addition, FSS operates interagency motor pools and disposes of surplus personal property.

--The National Archives and Records Service (NARS) preserves, uses, and disposes of government records. It also operates a regional network of storage facilities for non-archival records, administers the Presidential libraries, and publishes legislative and regulatory documents.

--The Federal Property Resources Service disposes of the government's excess and surplus real property and acquires, maintains, stores, and disposes of items in the National Defense Stockpile. Items are stockpiled at 112 sites with a combined value of about $11 billion.

--The Office of Information Resources Management coordinates and directs a comprehensive government-wide program for managing, procuring, and using automatic data processing (ADP) and telecommunications equipment and services.

--GSA's various staff offices provide administrative and operational support in such areas as financial management, budgeting, personnel, legal counsel, and acquisition policy.

OBJECTIVES, SCOPE, AND METHODOLOGY

Our objective was to evaluate GSA's progress in implementing the Act and reporting on the status of internal controls and accounting systems. Our work was directed at the adequacy of GSA's processes for identifying weaknesses in its systems of internal control and noncompliance with principles and standards in its accounting systems. We did not examine GSA's internal controls or accounting systems, and, therefore, can only attest to the reasonableness of GSA's processes for identifying reportable deficiencies under the Act.

able deficiencies under the Act. We conducted our study in accordance with generally accepted government audit standards.

We reviewed the processes devised by GSA to meet the requirements of the Act except for the Inspector General's (IG) program of internal self evaluations. We assessed the implementation of those processes at GSA's headquarters and at 4 of its 11 regional offices. The National Capital Region was selected because it is the region with the most employees, Kansas City because it has the National Payroll Center, and San Francisco and Chicago to provide additional geographic representation.

We reviewed

--background information related to the Act, including OMB's guidelines and the CG's internal control standards and accounting principles and standards;

--instructions issued and training provided by GSA's Office of Program Oversight, which provided leadership to implement the Act;

--files accumulated by OMB during its monitoring of GSA's progress in meeting the Act's requirements;

--much of the documentation generated by GSA's processes, including vulnerability assessments and accounting systems assessments;

--GSA's budget for fiscal year 1983 and its organization manual to spot check the completeness of its inventory of programs and functions; and

--the records of GSA's Audit Resolution Office to check the status of improvements recommended by GAO from January 1981 to July 1983 and by the IG from January 1981 to March 1983.

We interviewed headquarters officials who were involved in planning and overseeing GSA's efforts to implement the Act and many headquarters and regional officials who were involved in implementing those efforts. We conducted interviews in each of the services and in many of the staff offices. We also interviewed the IG and those members of his staff who monitored GSA's processes and assisted in their implementaton.

CHAPTER 2

GSA NEEDS TO BUILD ON THE FOUNDATION IT HAS LAID FOR EVALUATING AND IMPROVING INTERNAL CONTROLS

GSA started implementing its internal control evaluation process in January 1982. Between then and January 1984, as depicted on figure 1 and as further discussed in the first part of this chapter, GSA compiled an inventory of all its programs and functions, assessed the vulnerability of those programs and functions, further analyzed the controls associated with the most vulnerable programs and functions, identified internal control problems, and issued its first annual report, which highlighted those problems that GSA considered material or significant. The Administrator demonstrated his commitment to implementing the Act by assigning responsibility for implementation to an appropriate level of management and by requiring that individual managers be held accountable for internal control through their annual performance contracts.

As discussed in the second part of this chapter, GSA needs to build on its good start by refining its process to make it more efficient and by putting more emphasis on the kind of guidance, documentation, and monitoring needed to better assure reliable results.

GSA DEVELOPS A FOUNDATION FOR BETTER INTERNAL CONTROLS

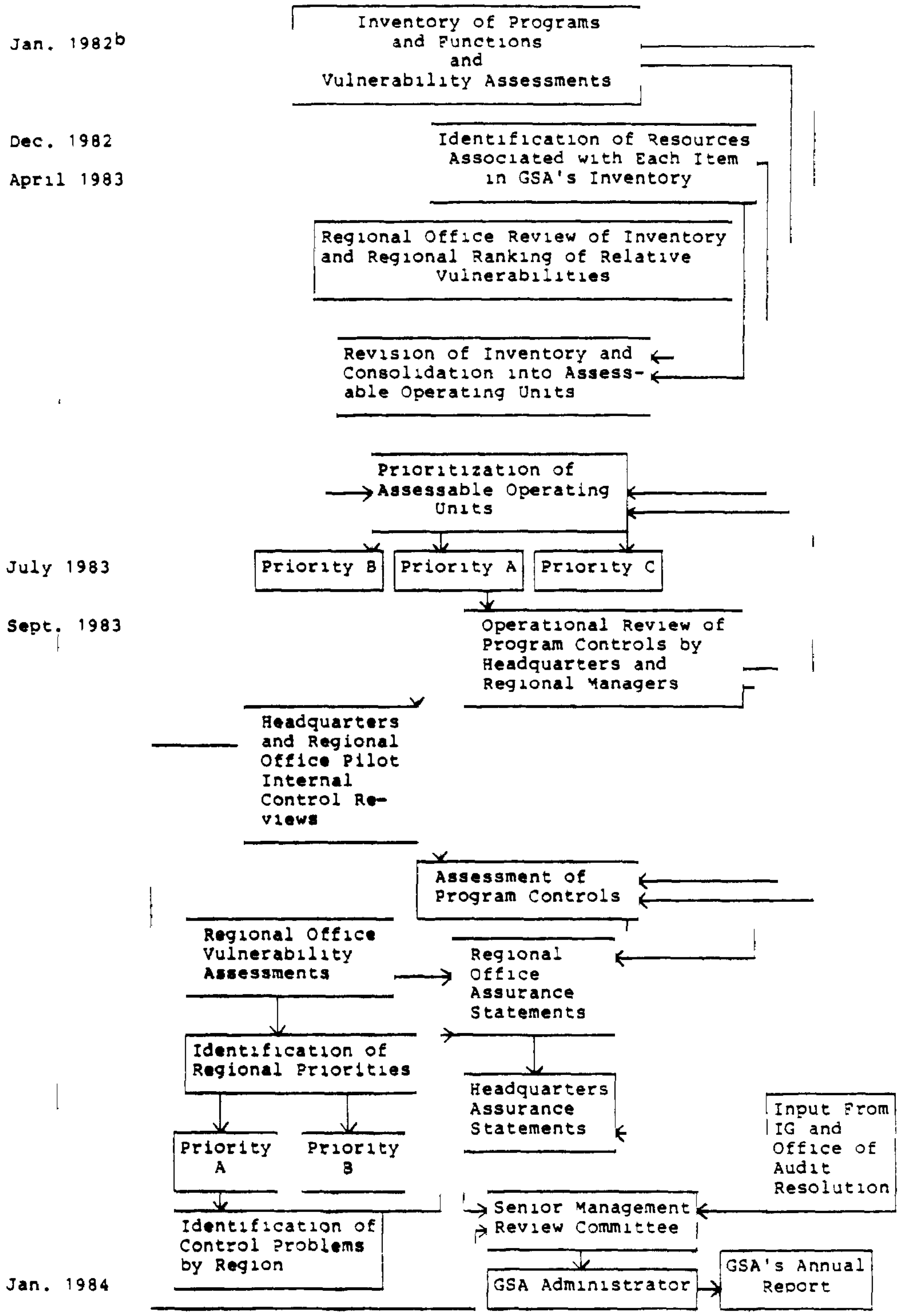
In implementing section 2 of the Federal Managers' Financial Integrity Act, GSA established accountability for internal controls, identified internal control weaknesses known by its managers, and developed plans for correcting those weaknesses. GSA followed OMB's guidance for developing and implementing an internal control improvement program. Although GSA ran out of time before it could conduct the detailed internal control reviews referred to in OMB's guidance, it did develop and implement procedures that required managers to identify known weaknesses and develop corrective action plans. In its first annual report under the Act, GSA listed various material and significant weaknesses throughout the agency and said it would track correction of those weaknesses as well as other less significant problems identified during its process. The IG monitored the internal control review process, provided input as it was implemented, and is preparing an overall evaluation.

Organizing and establishing internal control accountability

GSA has designated a senior official to coordinate its efforts to implement the Act, established internal control

FIGURE 1

GSA's Internal Control Evaluation Process[a]



[a]Except where noted, the steps in this process were done at GSA headquarters only.

[b]The vertical line along the left margin shows the approximate time frame during which phases of GSA's process were conducted. It is not intended to show the amount of time spent on a specific step in that process.

responsibilities throughout the agency, and compiled a comprehensive inventory of programs and functions.

In March 1982, on the basis of OMB guidance[1] issued before the Act, the Director of GSA's Office of Oversight was assigned responsibility for ensuring adequate internal control systems. Within that Office, the Office of Program Oversight was tasked with reviewing internal control systems and providing day-to-day leadership in implementing the Act. At that time, the Office of Oversight Director was a senior level official reporting to the Administrator with a wide range of responsibilities, including reviewing program management. In August 1983, the Director was named Associate Administrator for Policy and Management Systems. This placed him more prominently in the organization and would seem to put him in an even better position to provide central leadership for internal controls. The Office of Oversight and its responsibilities were assigned to the Associate Administrator.

In March 1983, the Administrator directed that each GSA management official's performance plan include internal control objectives and performance criteria. As of September 30, 1983, all 112 members of GSA's Senior Executive Service and 75 percent of its 1,952 merit pay officials had internal control statements in their performance plans.

To facilitate an evaluation of internal controls, the Office of Program Oversight segmented GSA into organizational components and then asked each component, at the headquarters level, to identify its programs and functions. The Office reviewed each component's submission and returned some that it felt were incomplete. After those submissions were revised, GSA ended up, on December 31, 1982, with a comprehensive inventory of 1,132 programs and functions.

Assessing programs and functions for weaknesses

GSA assessed its programs and functions for adequate internal controls by having its managers conduct vulnerability assessments and then analyze the most vulnerable units to identify known weaknesses, assess their significance, and plan corrective actions.

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[1]OMB Circular A-123, issued October 28, 1981, prescribed policies and standards to be followed by executive agencies in establishing and maintaining internal controls in their program and administrative activities. OMB revised its circular on August 16, 1983, to recognize the Act.

By the end of 1982, headquarters managers involved in the activities being reviewed assessed the vulnerabilities of GSA's 1,132 programs and functions. These self-assessments were recorded on a form developed by the Office of Program Oversight that required managers to rate a program or function's general control environment, inherent risk, and safeguards[2] as specified in OMB's guidelines and to decide whether the program or function's overall vulnerability was high, medium, or low. Of GSA's 1,132 programs and functions, 44 were rated high, 250 were rated medium, and the rest were rated low. Each GSA service and staff office then ranked its programs and functions as to their relative vulnerability to fraud, waste, abuse, or mismanagement.

NARS, for example, had an inventory of 205 programs and functions as of December 1982. It assessed the vulnerability of each of those programs and functions and ended up with 2 rated high, 24 rated medium, and the rest rated low. It then ranked those 205 programs from the one it considered most vulnerable (1) to the one it considered least vulnerable (205).

From April to July 1983 GSA further evaluated the completeness of its inventory of programs and functions, consolidated the programs and functions into assessable operating units (AOUs) to better facilitate review of internal controls, and identified responsible managers for each AOU. (GSA defines an AOU as a group of like activities serving a common set of goals and constrained by an interrelated set of internal controls.) These steps involved GSA's regional offices for the first time in the internal control review process.

The regions reviewed the inventory of programs and functions for completeness and ranked the programs and functions as to their relative vulnerability. While the regions were doing that, headquarters managers were developing information on resources expended and assets safeguarded for each program and function. Using the regional input along with the resources/asset information, services and staff offices added, deleted, and combined programs and functions--the end result being a consolidated inventory of AOUs. After the consolidated inventory was reviewed by the regions in June, GSA ended up with a list of 827 AOUs.

As part of this process, GSA identified responsible managers for each AOU, thus pinpointing internal control responsibilities throughout the agency. It identified, for each AOU,

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[2]These three broad areas generally cover all parts of an activity's operation from its authorization and mission to its checks and balances.

the manager responsible for developing internal controls, the one responsible for approving them, and the one responsible for implementing them. The first two are generally headquarters managers, the third is generally a regional manager.

Considering OMB's guidance that AOUs be prioritized for further analysis or review, GSA grouped its AOUs into three categories--priority A, B, or C--on the basis of criteria developed by the Office of Program Oversight. The criteria considered such factors as the vulnerability assessments, the relative rankings, pertinent audit findings, and the amount of resources devoted to the AOU, and included an overall requirement that each service and staff office classify at least 25 percent of its AOUs as priority A. The services and staff offices ended up classifying 244 of the 827 AOUs as priority A.

Rather than conduct detailed internal control reviews of all priority A AOUs, GSA decided to have its headquarters and regional managers conduct assessments directed at identifying known weaknesses. GSA believes that its managers are aware of most control deficiencies and that internal control reviews should only be conducted to test the adequacy of controls in operation, investigate suspected but not readily discernible control problems, or examine the effectiveness of actions taken to correct problems. GSA conducted seven pilot internal control reviews in 1983 to help it develop a methodology for doing future reviews. As discussed on page 13, GSA has scheduled 54 internal control reviews for 1984.

Although OMB's guidelines allow for evaluating the degree and causes of an agency's vulnerabilities as an alternative to doing detailed internal control reviews, they do not provide a methodology. To evaluate the program controls[3] associated with GSA's priority A AOUs, therefore, the Office of Program Oversight developed a list of general problem indicators and various indices to help its regional and headquarters managers identify control problems and assess the severity of those problems. The managers generally relied on personal knowledge in conducting the reviews, although past evaluations, such as GAO and IG audits, were to be considered.

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[3]GSA defined two types of controls. Program controls, which are established at the headquarters level, provide both broad and specific guidelines for pursuing operational objectives and a uniform standard for conducting agency business. Operational controls, which are established at the operating levels and may vary among operating units, either supplement program controls or provide controls where none would otherwise exist.

To avoid the built-in biases of headquarters managers responsible for developing program controls, GSA first had the priority A's reviewed in September 1983 by operational managers --those responsible for implementing the controls. As a result of those reviews, most of which were done in the regional offices, operational managers identified a total of 29 material weaknesses[4] in 22 AOUs. They also identified numerous other problems that they considered immaterial.

In November 1983, the headquarters managers responsible for developing program controls assessed those controls. In doing so, they were to consider the results of the aforementioned operational reviews and the vulnerability assessments that had been done about a year earlier. The managers identified 69 material weaknesses in 30 AOUs. Seven of the 69 weaknesses also had been identified by the operational managers.

Also, in November 1983, managers in GSA's regional offices conducted vulnerability assessments of their operations. The regional assessments included the same factors as the 1982 headquarters assessments (general control environment, inherent risk, and safeguards) and generally followed the same rating, ranking, and prioritizing processes. The regional managers further reviewed those operations they classified priority A to list known problems and assess their severity.

<u>Control problems reported and corrective actions planned</u>

A senior management review committee considered the results of the various assessments of internal controls and gave the GSA Administrator its recommendations as to what should be included in the annual report required by the Act. After consolidating weaknesses that had been identified as material during the various assessments, GSA issued a report that listed 10 material weaknesses that had already been corrected, 10 other material weaknesses that still required correction, and 30 significant weaknesses that required correction. GSA has developed a follow-up system to monitor correction of the reported weaknesses as well as 98 other problems that were not considered significant enough to be included in the report.

GSA's regional administrators and the heads of its services and staff offices used the results of the various reviews to

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[4]For the operational reviews, GSA defined a material weakness as a significant current or potential problem that will jeopardize the lawful, efficient, and effective accomplishment of a major mission or program.

support year-end assurance statements attesting to the adequacy of their internal controls. The statements required them to report any material and significant weaknesses that were disclosed through the review process or that came to their attention through any other means. For the assurance statements, GSA followed OMB's guidance and defined a material weakness as a situation in which the designed procedure or degree of operational compliance therewith does not provide reasonable assurance that

--obligations and costs are in compliance with applicable laws;

--funds, property, and other assets are safeguarded against waste, loss, unauthorized use, or misappropriation; and

--revenues and expenditures applicable to agency operations are properly recorded and accounted for to permit the preparation of accounts and reliable financial and statistical reports and to maintain accountability over the assets.

These are the three assurances listed in the Act. GSA also requested a fourth assurance--that programs are operating efficiently and effectively and achieving their intended purposes. GSA used the term significant weakness to describe a problem not considered major enough to be designated as material but important enough to warrant reporting.

The assurance statements along with the results of GSA's pilot internal control reviews and various management studies performed by the Office of Program Oversight, information on open audit recommendations identified by the Office of Audit Resolution, and input from the IG were given to a senior management review committee. This committee was chaired by the Associate Administrator for Policy and Management Systems--the designated senior control official--and consisted of the Associate Administrator for Operations, the Associate Administrator for Administration, the Comptroller, the IG, and the heads of the five GSA services. After reviewing the information, the committee gave the Administrator its recommendations on the content of GSA's annual report.

In GSA's January 20, 1984, report, the Administrator identified ten material weaknesses that, according to the report, had already been corrected. He also identified four agency-wide material weaknesses and six program specific material weaknesses--two each from NARS, PBS, and FSS--that still needed correcting. Those weaknesses included inadequate communication of policies to operational offices to ensure consistent, lawful implementation of agency programs; a lack of security in automated information systems that presents a vulnerability to theft; and the existence of about 3,800 uncorrected fire, safety, and health deficiencies in government owned or leased space as of October 1983. Finally, the Administrator identified 30 significant weaknesses--one or more in each of the five services and four of the staff offices--that required corrective action. They included issues such as contract administration of construction projects, telecommunications management, GSA's performance appraisal system, and reimbursable work authorizations.

In preparing its annual report, GSA consolidated a number of weaknesses, such as those involving policy implementation, that had been identified as material during the various assessments of internal controls by regional and headquarters managers. In the annual report, GSA said it would be monitoring corrective actions for all weaknesses identified during the internal control evaluation process. To accomplish this, the Associate Administrator for Policy and Management Systems, in February 1984, asked the heads of services and staff offices to (1) assign project managers who would be responsible for corrective actions and (2) approve and submit a detailed plan for correcting each weakness listed in the annual report as well as 98 other weaknesses that were identified during the evaluation process. Progress made in accomplishing the corrective action plans is to be reported monthly to the Office of Program Oversight starting in March 1984.

GSA has scheduled 54 internal control reviews to be done in 1984. As GSA explained in its annual report, some of those reviews will be directed at areas known to have control problems that are difficult to pinpoint without detailed documentation and testing of controls, some will involve testing of controls to see that they are working as intended, and some will be used to examine the effectiveness of controls that are now being corrected to eliminate problems identified during the internal control evaluation process.

Role of the IG in GSA's internal control review process

The IG monitored the internal control review process and provided comments, as he deemed necessary, while the process was being implemented. Specifically, the IG

--reviewed, but did not comment on, GSA's list of programs and functions and its vulnerability assessments completed in 1982;

--reviewed the list of priority A AOUs developed from the consolidated list of programs and functions, and suggested 11 additions;

--identified 46 AOUs believed to have material or significant weaknesses for possible listing in the annual report required by the Act;

--participated in the activities of the senior management review committee; and

--commented on a draft of GSA's annual report.

As of March 1984, the IG was preparing a report evaluating GSA's internal control review process.

GSA NEEDS TO BUILD ON ITS GOOD START

GSA's efforts to evaluate internal controls during 1982-83 represented a good start toward meeting the objectives of the Act. GSA needs to build on that good start. In its annual report, as discussed in the first part of this chapter, GSA pointed to two major building blocks planned for 1984--implementing a follow-up system to track corrective actions and doing more internal control reviews. In this section, we will discuss other steps that GSA should take to better assure that its evaluative efforts are efficient and that the results of those efforts are reliable.

Some aspects of GSA's process need to be refined

In its annual report, GSA described many material and significant weaknesses requiring management attention. As shown on page 7, however, the process GSA followed to get to that point was drawn out and fragmented, allowing little time for any in-depth testing of controls and leaving some managers confused.

With that in mind and drawing on the experience it has gained over the last 2 years, GSA needs to refine its process. More specifically, GSA should (1) update its basic internal control directive, (2) better assure that its evaluations are properly focused, (3) provide better coverage of crosscutting functions and programs, (4) revise its procedures to produce more useful vulnerability assessments, and (5) compile a handbook that clearly describes the overall evaluation process.

Internal control directive

In March 1982, in response to OMB Circular A-123, GSA issued an order (ADM 5400.39) that established procedures for setting up and maintaining internal control systems. Since then, the Federal Managers' Financial Integrity Act has been enacted, and OMB has revised its circular to recognize the Act and the guidelines and standards that OMB and the Comptroller General issued in response to the Act. As a first step then, in refining its process, GSA needs to revise its directive to recognize the above changes. As part of that revision, GSA should clearly explain what it expects of managers in meeting their internal control responsibilities. In so doing, GSA needs to recognize that some managers, especially at the operational level, are not senior executives or merit pay officials and therefore are not directly affected by the internal control objectives and performance criteria that have been included in Senior Executive Service contracts and merit pay performance plans.

In revising its internal control order, GSA should also redescribe the IG's role in the internal control evaluation process. The IG did not agree to the role as presently defined in the order, and that role is not fully consistent with his current practice. The order, for example, calls on the IG to determine the frequency and sequence of internal control reviews to be done by services, staff offices, or regions. The IG, however, believes this is an area of management prerogative and not something that should be done by the IG. Before committing any change in the IG's role to writing, we would encourage the Office of Program Oversight, the IG, and the Administrator to explore whether and to what extent the IG could assume a more collaborative part in GSA's process--one that involves more technical assistance.

<u>Focus of evaluations</u>

GSA's AOUs involve many programs and functions that operate agency-wide. As such, it would not be uncommon to have a headquarters manager and several regional managers evaluating risks and controls associated with the same AOU. By better defining the content of its AOUs, GSA can better assure that those evaluations are consistently focused.

As noted in GSA's annual report, the IG expressed concern about AOUs that were defined with loosely descriptive titles. According to the IG, the program reviews conducted by operating and program managers would have produced more meaningful results if the AOUs had been defined in terms of either program or control objectives. Several regional managers expressed similar views. The Chicago Regional Administrator, for example, in transmitting the results of reviews of Priority A AOUs by Chicago managers, noted that

> "Since the Assessable Operating Units (AOU)s identified did not refer to specific GSA handbooks, manuals,

or directives, it was felt that the evaluation procedures allowed a high potential to misinterpret control requirements or to inadvertently overlook gaps between individual control systems. Had the (AOU)s been assigned specific definitions and parameters, they could have served as a review base."

Office of Program Oversight officials have indicated that they recognize the need to better define GSA's AOUs. They have expressed reservations, however, about identifying control objectives as part of that effort. Because of the potential benefits, in terms of better focused evaluations, we think GSA, in redefining its AOUs, should at least test the feasibility of including control objectives in those definitions.

GSA could further assure a consistent focus to its evaluations if it followed the same programs and functions through the entire process. In its internal control guidelines, OMB notes that an agency's inventory should provide complete coverage of all programs and administrative functions and that individual assessable units should be of an appropriate nature and size to facilitate the conduct of meaningful vulnerability assessments. In striving to insure that its inventory met OMB's criteria, GSA kept refining its list of programs and functions.

Because of those revisions, the vulnerability assessments done by headquarters managers in 1982 involved a different list of programs and functions than did the assessments done by regional managers in November 1983, and neither of those lists agreed with the list of AOUs that were prioritized in July 1983. Although well-intentioned, the use of different lists leads to confusion and makes tracking or accountability more difficult. The problem of changing programs and functions should be greatly alleviated if GSA revises its vulnerability assessment sequence as discussed on page 17 because that revision should shorten the time between headquarters and regional assessments.

Crosscutting functions and programs

GSA's process for identifying AOUs in 1982-83 led to inadequate consideration of the risks and controls associated with such agency-wide functions as time and attendance, travel, and ADP and with programs, like the Repair and Alterations Program, that involve organizations other than the one doing the assessing.

GSA segmented organizationally, often down to the division level, and developed its inventory, assessed its vulnerabilities, and evaluated its controls accordingly. While that served to involve many managers in the internal control review process, it also caused programs and functions to be looked at in pieces. As a minimum, GSA needs to develop procedures for pulling those pieces together into a picture of the totality. In its January 1984 annual report, GSA apparently recognized the need to do something along these lines when it noted the

> "need to establish a hierarchical structure to the evaluation process which will allow for evaluations to be conducted at the lowest feasible level and for these evaluations to be aggregated in a manner which will facilitate an overall assessment of the adequacy of controls and reporting of control deficiencies."

Vulnerability assessments

GSA's vulnerability assessments would provide a more reliable basis for deciding which AOUs need to be further analyzed if they contained more information and included the views of those managers responsible for implementing the activities being assessed.

Besides better documenting their rationales, as discussed later, assessors should be required to provide information on pertinent IG and GAO audit findings and data on staff and dollar resources associated with the program or function being assessed--information that GSA collected during later stages of its 1982-83 process. Although more informative vulnerability assessments will require more work up front, they will diminish the amount of work needed to fill data gaps later and will enable GSA to move more directly from assessing vulnerabilities to identifying AOU priorities.

Perhaps the most important step GSA can take to upgrade its vulnerability assessments would be to involve regional managers earlier than they were involved during the 1982-83 process. OMB, in its internal control guidelines, notes that "Since the program or administrative function and internal control system may vary among locations--in design and/or operation--it may be necessary to perform separate vulnerability assessments . . . for each location." GSA performed separate assessments for each location, but not in a way that maximized the benefits. The assessments done during the latter part of 1982 (the ones used to prioritize AOUs) were done at headquarters. Not until November 1983 were the regions asked to assess vulnerabilities. The Office of Program Oversight has indicated that it may revise the process by having each region prepare vulnerability assessments, which headquarters will then roll up into national assessments. That sequencing seems more appropriate than the one followed in 1982-83.

Handbook

After refining its process, GSA should compile a handbook that clearly describes that process and defines the roles and responsibilities of headquarters and regional managers and internal control officers in implementing it. Such a handbook would (1) help those involved in the process see where their efforts are leading, (2) facilitate an orderly transition when management responsibilities for a particular program or function change, and (3) provide an effective vehicle for services, staff offices, and regions to use in identifying resource and training needs.

The results of GSA's process need to be better documented

Adequate documentation is an important part of an effective internal control evaluation process. It provides an "audit trail" for reviewers; facilitates an orderly transition when management responsibility for the subject of an evaluation changes; forces the person conducting the evaluation to "think it through," more so than might be the case when only checkmarks or the like are required; and provides better assurance that the results of an evaluation are understood and properly addressed. In its guidelines for evaluating internal controls, OMB noted that

> "Adequate written documentation should be maintained. In particular, documentation should be maintained for activities conducted in connection with vulnerability assessments, internal control reviews, and follow-up actions to provide a permanent record of the methods used, the personnel involved and their roles, the key factors considered, and the conclusions reached. This information will be useful for reviewing the validity of conclusions reached, evaluating the performance of individuals involved in the assessments and reviews, and performing subsequent assessments and reviews."

As demonstrated by the following discussion of Vulnerability Assessment Reports and operational reviews of program controls, GSA's internal control evaluation process during 1982-83 did not provide for adequate written documentation.

Vulnerability Assessment Reports, which were the springboard for identifying those AOUs that warranted further attention during the internal control evaluation process, contained ratings for inherent risk, safeguards, and general control environment but provided little, if any, insight as to the "whys" behind those ratings. Assessors were told what factors to consider in assessing inherent risk, but they were not required to identify the specific factor or factors that caused them to rate inherent risk as high or medium; they were told to analyze the existence and adequacy of controls, but were not required to explain their conclusions; they were told what factors to consider in assessing the general control environment and to identify any they thought adversely affected their internal controls, but they were not required to explain why they felt that way.

The absence of adequate documentation behind the vulnerability assessments, which were done in 1982, probably best explains why headquarters managers, in completing their program control evaluations a year later, often ignored or responded inadequately to that part of the evaluation in which they were asked to explain any high or medium rating on the applicable Vulnerability Assessment Report.

One program control evaluation, for example, contained the following explanation for a program that had been rated highly vulnerable in every category:

> "Apparently whoever originally rated 'H' was making a 'guesstimate'. There is no present need for such a rating. Cannot locate who made the determination."

Another program control evaluation contained the following explanation for a program that had been rated moderately vulnerable in every category:

> "[Vulnerability Assessment Report] completed by my predecessor. M ratings were given solely because of the potential for abuse."

We had the same kind of results when we asked several assessors to explain their ratings about a year after they had made them. Some were able to explain, others were not. Some remembered specifics, others talked in generalities.

As another part of their program control evaluations, headquarters managers were to consider the results of reviews done by operational control managers, most of whom are in the regional offices. Those reviews, like the vulnerability assessments, were inadequately documented. The Office of Program Oversight "for efficiency in data collection and to provide for a uniform approach" had produced a list of about 110 problem indicators for operational control managers to use in identifying and reporting control problems. No other documentation was required.

Although the indicators may have facilitated efficiency and uniformity, they were too broadly worded to be of much use. For headquarters managers to deal effectively with problems reported by regional managers, they need more specific information than provided by the problem indicators. An operational control manager in Kansas City, for example, told us that two of the control problems he identified related to the Property Accountability Handbook being outdated and inventory printouts being untimely. All the headquarters manager saw, however, were problem indicators that said such things as "Program policies or objectives are not current" and "Data is inaccurate, incomplete or untimely."

GSA needs to better monitor its process

OMB says little about quality control in its guidelines for evaluating internal controls, but it does say that a "monitoring system should be developed to assure that assessments and reviews are performed adequately." GSA could point to various features of its process as providing quality control--such as having everything flow through internal control officers and having the regions review headquarters-developed information--but those controls have not been fully effective.

Some aspects of GSA's internal control evaluation process, such as the inventorying of programs and functions and the identification of material weaknesses, were reviewed in depth. As the following examples demonstrate, however, other aspects of the process were not reviewed as closely:

--Of the 289 Vulnerability Assessment Reports prepared in FSS, 17 were unsigned by either the assessor, the responsible official, or both and 25 others had ratings on the front that were inconsistent with the detail on the back.

--At December 31, 1982, GSA had an inventory of 1,132 programs and functions--each supported by a vulnerability assessment. Before GSA started assigning priorities, however, the inventory had been reduced--through consolidations and deletions--to about 800 programs and functions. Even though the criteria for assigning priorities relied heavily on vulnerability assessment information, the Office of Program Oversight did not ensure that each of the items in the revised inventory was supported by a Vulnerability Assessment Report before priorities were assigned. Many items were not.

--Considering the criteria established by the Office of Program Oversight, several AOUs that seemed to warrant inclusion on the list of priority A's developed by the services and staff offices were not identified as A's. One AOU identified as a priority B by the Federal Property Resources Service, for example, had been rated moderately vulnerable overall and in safeguards. According to the established criteria, such a rating warranted assignment of a priority A. Although the criteria included a provision whereby a "low level of resources devoted to" the AOU could lead to assignment of a lower priority than otherwise might be warranted, that did not seem to explain the assignment of a priority B.

The level of resources devoted to the above AOU was more than was devoted to other AOUs that the Federal Property Resources Service had identified as priority A's.

--As part of their program control evaluations, headquarters managers were supposed to explain any high or medium rating on the applicable Vulnerability Assessment Report. Many evaluations were submitted and accepted with no explanation or with inadequate explanations, such as "rationale confirmed" (in explaining a vulnerability assessment that had inherent risk, safeguards, and general control environment rated medium); "The degree of vulnerability to waste, fraud, abuse or mismanagement is inversely related to the degree of adherence to our policies, criteria and technical guidance" (in explaining another assessment that had everything rated medium); and "General control environment is rated 'medium' because of the subjective evaluation of the organization."

--During our review of regional vulnerability assessments done by GSA's Kansas City Regional Office, we found 10 AOUs that the region had labeled as priority B even though the vulnerability assessments for those AOUs produced results that met the priority A criteria. When we brought those inconsistencies to the attention of appropriate regional managers, they responded by revising the vulnerability assessment results.

We do not mean to imply, through the above examples, that certain phases of GSA's process were devoid of control. The more accurate conclusion is that control was haphazard, with some phases being monitored more than others and with some persons and groups doing a better job of monitoring than others. We think quality control would be more consistent, and more effective, if GSA, in addition to providing for better documentation as discussed earlier, were to more clearly define the review requirements associated with its internal control evaluation process.

Define review requirements

In organizing to meet the requirements of the Act, each GSA service, staff office, and region appointed a contact person who was generally, but not always, referred to as an internal control officer. Although most, if not all, of the paperwork associated with GSA's internal control evaluation process flowed through those persons (putting them in an excellent position to control quality) and although GSA noted in its annual report that internal control officers have a review responsibility, that responsibility has not been clearly defined. The only document we saw defining the internal control officer's role was a July 1982 memorandum in which the heads of GSA's services and staff offices were asked to appoint internal control officers who would serve as "advocates, instructors, and liaison officers." Nothing was said about monitoring. Regional offices were not asked to appoint internal control officers. They were asked, instead, to designate "contact points," with no guidance as to their role beyond that implied by the title.

Instructions and forms issued by the Office of Program Oversight for the various phases of the internal control evaluation process were also generally silent about review requirements. For example, there is a place on the Vulnerability Assessment Report for the responsible program official to sign after the assessor has signed, but there is nothing on the form or in the instructions to suggest that that offical is signing as a reviewer. In fact, on about 13 percent of GSA's assessment reports, the same person signed as the assessor and as the responsible official. Each report is supposed to be signed also by the head of that particular service or staff office, but all he or she is attesting to, by that signature, is the ranking of the particular program or function relative to the other programs or functions in his or her organization--not to the accuracy of the report or to the reasonableness of the conclusions therein. Likewise, headquarters managers were required to attest that their assessments of program controls were accurately and comprehensively completed, but no one was required to review those assessments.

Office of Program Oversight officials expressed the belief that it is unnecessary to specifically require managerial review. They pointed out, for example, that if a service or staff office head signs a memorandum transmitting a batch of completed forms to Oversight, he or she is attesting, by that signature alone, that the forms meet with his or her approval. We agree--it is not unreasonable to expect appropriate chain-of-command or supervisory review without having to specifically mandate it as part of each phase of the internal control evaluation process. We think GSA would be well served, however, if the Office of Program Oversight reinforced those expectations in its instructions and on its forms. In that regard, Oversight should be aware that some of the time frames associated with the 1982-83 process seemed to provide little opportunity for effective review or monitoring. Regional vulnerability assessments, for example, were due in Washington less than 3 weeks after the instructions were issued, and program control assessments were due 2 weeks after instructions were issued.

Along those same lines, the Office of Program Oversight did not always have enough time itself to review everything that was coming in--another reason why it needs to better assure that supervisors and internal control officers are controlling quality. An Oversight representative told us, for example, that there was no time to analyze whether the services and staff offices correctly prioritized their AOUs because Oversight had to focus on developing the next phase of GSA's process.

<u>Those involved in implementing GSA's process need better guidance</u>

Guidance with respect to GSA's 1982-83 internal control evaluation process consisted of written instructions for each phase of that process, briefings given in conjunction with the issuance of most of those instructions, and informal direction provided by Office of Program Oversight personnel and internal control officers. GSA needs to upgrade its guidance so as to (1) better familiarize managers with GSA's overall process for evaluating internal controls and their role in implementing that process and (2) help managers do a better job of meeting the technical requirements of GSA's process.

Although the guidance provided during 1982-83 got GSA through the steps needed to meet the Act's requirements, it did not provide the kind of information needed to ensure a complete understanding of and commitment to GSA's process--especially in the field. The only familiarization training given GSA managers in the four regions we visited was in the form of briefings by the Office of Program Oversight in conjunction with the first request for regional input to the inventory of programs and functions. Besides going over the instructions for that phase of the process, the briefings were intended to acquaint managers with the Act and OMB Circular A-123. According to several regional managers, those briefings did not provide a good understanding of GSA's overall process, how the various pieces tied together, what GSA was trying to achieve through its process, or what it expected of its managers. Without that kind of overview, managers may have trouble viewing the internal control evaluation process as anything more than a paperwork exercise.

Besides familiarization training, GSA needs to provide better technical guidance, either through formal training or more informative written instructions. Drawing on its experiences during 1982-83 and with input from internal control officers and managers who were involved in implementing GSA's process, the Office of Program Oversight, in planning steps for the next annual report, could identify various technical matters that need to be clarified. We identified several during our work:

--In reviewing Vulnerability Assessment Reports and talking to assessors, we came across several examples that seem to support the need for more specific guidance on assessing vulnerabilities. For example, of 19 assessors in the central office who commented on their understanding of the general control environment matrix on the Vulnerability Assessment Report, 7 indicated that the matrix was confusing or that they had problems in trying to fill it out. Also, some assessors indicated that their assessments of inherent risk were based on factors (such as the need for additional resources) that seemed to fall outside the definition of inherent risk--the inherent potential for waste, loss, unauthorized use, or misappropriation due to the nature of the activity itself. Adequacy of resources, for example, is something that should be addressed in assessing general control environment, not inherent risk.

--GSA also needs to provide better guidance on that part of the vulnerability assessment that calls for a preliminary evaluation of safeguards. The guidance given headquarters assessors in 1982 and regional office assessors in 1983 was minimal and inconsistent. Headquarters assessors were told to "subjectively evaluate the effectiveness of existing controls" for the program or function being assessed. To do that they were instructed to first analyze the controls to determine if they were highly effective, adequate, or inadequate, and then either describe (but not rate) the methods available to verify and enforce compliance with those controls or explain why no such method existed. No further guidance was provided. Regional office assessors were told to consider their ratings for inherent risk and general control environment in rating the effectiveness and adequacy of current safeguards and then to "Rate your procedures and capabilities for monitoring the implementation and effectiveness of your programs." Again there was no further guidance.

--Another aspect of vulnerability assessments that needs attention is the extent to which controls associated with the ADP-related features of a program or function should be considered during the assessment process. In that part of its internal control guidelines dealing with vulnerability assessments, OMB's only reference to ADP is a provision that analysis of general control environment include "an awareness of the strengths and exposures inherent in a system that uses ADP and the existence of appropriate controls." GSA's guidance did not provide any elaboration. In assessing ADP as an element of the general control environment, assessors were told to evaluate security procedures, cost effectiveness, and system usefulness, but were given no guidance as to how to go about making those evaluations. Consistent with OMB's guidelines, GSA told its assessors, in rating safeguards, to evaluate the effectiveness of existing controls over the program or function being assessed--it made no specific reference to ADP controls. According to officials of GSA's Office of the Comptroller, its Vulnerability Assessment Report on ADP systems reflected only the generic vulnerabilities associated with any ADP system.

--GSA's identification of material weaknesses provided another example of the need for better guidance. In its guidelines, OMB defined a material weakness as a situation in which the designed procedure or degree of operational compliance therewith "does not provide reasonable assurance that the objectives of internal control specified in the Act [see page 12] are being accomplished." To help its regions identify material weaknesses during their reviews of program controls, GSA told them to consider whether "significant current or potential problems exist in this assessable operating unit which will jeopardize the lawful, efficient, and effective accomplishment of a major GSA mission or program." Our discussions with regional personnel indicated some confusion in interpreting that question. For example, managers considered some AOUs to be insignificant that involved annual resources of $15 million or less while other AOUs with similar resources were considered significant. Some managers considered their problems immaterial if the affected program was still functioning despite the problems. As further evidence of that confusion, the Office of Program Oversight asked the regions to reconsider the material weaknesses they had identified because Oversight felt that some of the identified problems were not really problems but causes of problems and because it was not convinced that all the material weaknesses were really material. After reconsideration, the regions decided that many weaknesses they had originally classified as material were not.

--Other matters that seem to warrant better guidance include the distinction between program and operational controls (although the regions were supposed to evaluate only operational controls during their vulnerability assessments, the few assessors we talked to said they had evaluated program controls in addition to or instead of operational controls) and the identification of program control elements (submissions by the various services and staff offices indicated differing interpretations of the guidance provided by the Office of Program Oversight).

One part of GSA's process that will be emphasized more in 1984 than it was before and that will require a significant investment in formal training is the doing of internal control reviews. The few reviews done in 1983 were considered part of a pilot program to help identify alternative methodologies and, accordingly, the Office of Program Oversight provided only general guidance. With many more internal control reviews scheduled for 1984, detailed training is critical and, according to Oversight, will be provided. To better assure the adequacy of that training, Oversight should consider involving the IG.

CONCLUSIONS

Faced with an ambitious new program involving unfamiliar procedures and concepts (like vulnerability assessments, internal control reviews, general control environment, and AOUs) coupled with the need to meet a tight reporting deadline, GSA's efforts during 1982-83 represented a solid beginning. GSA accomplished many of the things necessary to build a strong foundation that will continue to support future years' efforts--things like establishing strong central leadership over the program, involving managers throughout the organization, and producing an annual report that demonstrated a willingness to air its problems.

GSA needs to build on that progress. Besides carrying through with plans to extend its program by doing more internal control reviews and monitoring corrective actions, GSA needs to improve that part of the program already in place. By upgrading its guidance, requiring better documentation, putting more emphasis on quality control, providing a clearer focus for its evaluations, getting a better handle on crosscutting activities, and making certain changes to its vulnerability assessment process, GSA can enhance the efficiency of its efforts and better assure the reliability of its results.

PROPOSALS, AGENCY COMMENTS, AND OUR EVALUATION

In a draft of this report, we proposed that the GSA Administrator direct the Associate Administrator for Policy and Management Systems to

--better define the contents of GSA's AOUs. As part of that effort, GSA should at least test the feasibility of including control objectives in some of those definitions.

--provide for more consistency among the various evaluations that make up GSA's process by maintaining a constant inventory of AOUs.

--revise the vulnerability assessment procedures to involve regional managers earlier than they were involved during 1982-83.

--require that Vulnerability Assessment Reports include information on the resources associated with the activity being assessed and on pertinent GAO and IG reports.

--adopt procedures that will provide better evaluative coverage of crosscutting functions and programs, like ADP, travel, and the Repair and Alterations Program.

--define the responsibilities of internal control officers, with specific attention paid to their role in monitoring the internal control evaluation process.

--require adequate written documentation of the rationale behind the results of vulnerability assessments and other parts of the internal control evaluation process and emphasize the importance of supervisory review of those results.

--prepare a handbook describing GSA's internal control evaluation process and distribute it to all managers.

--provide managers with familiarization training on the overall internal control review process, what GSA is trying to achieve, how the various pieces tie together, and what is expected of individual managers. The handbook and the revised GSA order discussed below could provide a convenient focus for that training.

--provide improved technical guidance where experience indicates a need, including guidance on (1) identifying material weaknesses, (2) conducting internal control reviews, and (3) assessing vulnerabilities, with an emphasis on how to evaluate safeguards and consider ADP.

--revise GSA Order ADM 5400.39 to (1) recognize the requirements of the Act and OMB's revised Circular A-123; (2) explain what is expected of managers in meeting their internal control responsibilities, remembering that some are not covered by Senior Executive Service or merit pay requirements; and (3) describe the IG's current role in the internal control evaluation process.

In describing the IG's role the Administrator should meet with the IG, the Associate Administrator for Policy and Management Systems, and the Director, Office of Program Oversight to explore ways that the IG might assume a more collaborative role in GSA's process, such as by helping develop a training program dealing with internal control reviews.

In commenting on a draft of this report (see app. I), the Acting GSA Administrator noted that GSA generally concurred with and expected little difficulty in taking the actions necessary to meet our proposals. Because of that responsiveness and the problems inherent in starting to implement the Act, we are not including recommendations in this report. We plan, however, to monitor GSA's progress as part of our continuing review of the Act's implementation.

In his letter, the Acting Administrator indicated that there were "many inaccurate and misleading areas" in our draft, and he cited two examples, relating to accounting systems, that we address in chapter 3 (see p. 37). We met with officials from the Office of Program Oversight to discuss any other inaccuracies or misleading statements they might have identified in our draft. The issues raised by those officials were more a question of tone and interpretation rather than factual accuracy. To the extent we felt appropriate, we revised our report to respond to Oversight's concerns.

The Acting Administrator also noted that

> "in reading the draft we sense that an overall 'audit' approach is being emphasized in interpreting the requirements of the Act. It has been our understanding that fulfilling the Act's intent was meant to be primarily a 'management' initiative. We believe that the greatest benefit will be achieved by emphasizing the federal manager's responsibility to identify and correct deficiencies in systems of internal and accounting control."

In discussing this comment further with the Office of Program Oversight, it seemed that the major point of contention was the extent to which GSA's evaluative results had to be documented. Oversight agrees with our proposal calling for adequate written documentation of the rationale behind the results of its evaluations but apparently believes that the level of documentation we expect exceeds what Oversight thinks necessary.

That may be true. We believe that the level of documentation should be such that an independent reviewer could examine it and understand how the conclusion was reached. Considering that the results of GSA's evaluations provide a basis for the Administrator's end-of-year report to the President and the Congress, we do not consider those expectations unreasonable.

CHAPTER 3

GSA SHOULD ESTABLISH A PROGRAM FOR MEETING ACCOUNTING SYSTEMS RESPONSIBILITIES UNDER THE ACT

Section 4 of the Act requires agencies to report annually on whether their accounting systems conform to the CG's principles and standards. GSA did not formally establish responsibilities throughout the agency to meet that requirement. Based on an effort started late in 1983 to identify known weaknesses, GSA concluded, in its first annual report, that its accounting systems did not fully conform to the principles and standards. GSA compiled a list of known deviations from the principles and standards, including material deviations in system documentation and in the adequacy of financial data, and developed corrective action plans.

Building on its 1983 experience, GSA should establish a formal program of accounting system evaluation that fixes responsibilities throughout the agency for meeting the Act's section 4 requirement. The program should include provisions for monitoring planned accounting system improvements and for evaluating systems in operation to assess the adequacy of corrective actions, test systems believed to be in compliance with accounting principles and standards, and help identify system weaknesses that are difficult to pinpoint. GSA has scheduled two reviews of accounting functions under its internal control review program discussed in chapter 2. These reviews should be coordinated with the tests of accounting systems in operation because of the interrelationship between internal controls and accounting principles and standards.

GSA'S FIRST YEAR EFFORTS FOR BRINGING ITS ACCOUNTING SYSTEMS INTO COMPLIANCE

The Office of Program Oversight led GSA's first year efforts to identify, report on, and correct accounting systems weaknesses. A late start in the fall of 1983 kept GSA from uniformly reviewing all systems or testing their operation. A survey of GSA's financial management network conducted separately by the IG served as an inventory of accounting systems. Under Oversight's direction, GSA managers and the IG reported known accounting systems deviations from the CG's principles and standards.

Independent IG survey of financial management systems

In a September 30, 1983, report, the IG identified 38 systems in GSA's financial management network, provided an inventory of those systems and their interfaces, and identified potential weaknesses--including outdated systems documentation and concern about the adequacy of financial data.

The survey was initiated in July 1983, independently of Oversight, and was primarily based on information obtained during discussions with GSA systems development and maintenance personnel, accountants, and systems users. The IG's staff also reviewed related reports, manuals and guides, and legislative and regulatory requirements.

The IG reported that GSA program activities are financed by 51 funds, including 19 appropriated funds, 12 revolving funds, 3 trust funds, and 17 deposit funds, and that GSA also provides accounting and related services for 96 funds of other agencies. According to the IG, GSA's financial management network consists of 38 automated and manual systems. The Office of the Comptroller is responsible for the two systems that produce GSA's official accounting records. The other 36 systems consist of 13 subsystems to the official accounting systems, 1 payroll system, and 22 financial information systems that provide data to the official accounting systems. The Comptroller is responsible for 14 of those 36 systems, other services and staff offices are responsible for the other 22.

Considering the IG's report and the CG's definition of an accounting system, it appears that all 38 systems would be considered accounting systems subject to the section 4 requirement. In April 18, 1983, guidance to agencies on approval of accounting systems, the CG defined an accounting system thusly:

> "A complete accounting system, for GAO approval purposes, is one established to assist in the financial management functions of budget formulation and execution, proprietary accounting, and financial reporting. It is the total structure of methods and procedures used to record, classify, and report information on the financial position and operations of a governmental unit or any of its funds, balanced account groups, and organizational components. Accounting systems for approval purposes shall be comprised of the various operations involving the authorizing, recording, classifying and reporting of financial data related to revenues, expenses, assets, liabilities, and equity."

Office of Program Oversight officials agreed that the other 36 systems, like the two official accounting systems, would be subject to section 4 of the Act. In view of the above, we hereafter refer to all 38 systems as accounting systems.

Oversight used the IG's report as a starting point for identifying accounting systems to be reviewed in meeting the requirements of the Act. Neither the Comptroller nor Oversight made any comments relating to unidentified accounting systems when the draft survey report was circulated for comment. The Comptroller's office did express concern that the scope of the IG's work was too limited to assess the adequacy of financial data. We compared the list of systems in the survey report to the appropriations listed in the 1983 Budget Appendix and to the fund codes listed in GSA's 1983 Budget Estimates. Based on those comparisons, the IG's survey report appears to account for all funds.

Knowledgeable persons reviewed major accounting systems for compliance by completing a checklist

Oversight had anticipated that OMB would provide guidance to meet the Act's section 4 requirement even though such guidance is not required by the Act. In late 1983, however, when it became apparent that OMB guidelines were not going to be timely for the first year's effort, Oversight implemented a methodology developed within GSA.

In mid-October, after several meetings between staff of Oversight, the IG, and the Comptroller, it was agreed that the Comptroller's staff would perform compliance evaluations for the 16 accounting systems for which he was responsible. According to Oversight officials, compliance evaluations were limited to these 16 systems because they were the most significant systems and included the two systems that produce GSA's official accounting records. Also, time constraints made it impossible to have the other services and staff offices perform compliance evaluations on the remaining 22 systems.

Instructions for the compliance evaluations included preprinted worksheets outlining the CG's principles and standards. The Comptroller's staff were to check "yes" or "no" to indicate whether the accounting system being evaluated met a particular principle or standard. The instructions stated that the evaluator could justify each "yes" response by referring to available documentation or by providing a brief narrative description but a specific reference (such as page numbers or paragraphs) was not required.

The Comptroller's staff relied on their knowledge of the accounting systems to complete the checklist. According to an Oversight official, the staff did cite applicable policy or procedural manuals, when possible under the time constraints, to document their responses. They did not observe or test the systems in operation.

An Oversight official estimated that 12 persons were involved in completing the checklists for the 16 systems and that each person spent 5 to 7 days. No training was provided to those persons. The official said that the staff performing the reviews all had accounting backgrounds, were familiar with the principles and standards, and were the most knowledgeable about the systems they operate.

The Comptroller reported to Oversight that except for 15 deviations, the accounting policies for the 16 accounting systems complied with the CG's principles and standards. These deviations related more to technical accounting principles and standards, such as general ledger account balances for equipment not agreeing with the physical inventory or a provision for salvage value not being used in computing depreciation.

Other assessments to identify known accounting system weaknesses

Oversight supplemented the compliance evaluations with a request to the heads of services and staff offices, fund managers, regional administrators, and the IG to identify known accounting system weaknesses and corrective actions.

In performing the assessments, the managers and the IG were told to rely on staff knowledge, IG or GAO reports, and any other internal management reviews. Oversight's instructions stated it was necessary to rely on known weaknesses because of the time constraints occasioned by GSA's late start. No training was given because, according to an Oversight official, the managers and the IG were just asked to identify known weaknesses. The weaknesses disclosed by the assessments included a major concern about the adequacy of financial data produced by the accounting systems.

GSA reported that accounting systems did not fully conform to principles and standards

In its first annual report, GSA identified material deviations, major areas of concern, and other significant deviations for its accounting systems operated during the fiscal year ended September 30, 1983, and concluded that its systems did not fully conform with the CG's principles and standards.

GSA categorized each accounting system weakness as either a material deviation, a major area of concern, or a significant deviation. The weaknesses were identified through the checklist compliance evaluations, other agency-wide assessments, the IG's financial management systems survey, and the internal control evaluation process discussed in chapter 2. Corrective actions are planned for all the weaknesses.

The two material deviations involved accounting system documentation and the adequacy of financial data. GSA found that documentation of its accounting policies and procedures had not been maintained on a current basis, especially in its primary accounting system. GSA stated that the lack of documentation hindered communication and understanding of systems related operations and tasks at every level and phase of work and resulted in frequent errors, loss of time, and inefficient use of manpower resources. The assessments performed by GSA managers disclosed a concensus that reports produced by the two systems that produce GSA's official accounting records were not provided to users in a timely manner. To a lesser degree, users of the reports and related financial data were critical of the accuracy and reliability of the reports. As such, according to GSA, managers have developed and maintained additional systems for operational use that are somewhat duplicative of one of the official systems.

GSA's organizational structure for systems development and its accounting system technology were reported as major areas of concern. GSA stated that analysis and use of financial data and development of accounting systems have been hindered by a lack of clear-cut and effective assignment of financial management responsibilities and duties. The weakness has resulted in overall fragmentation of its systems and, at times, a crisis-oriented approach toward financial management. GSA also believes that its accounting systems do not utilize current computer technology. This results in financial data not always being recorded promptly in the accounting systems. It causes delays between the time a manager initiates a document, the Comptroller's office records the transaction in the system, and the manager receives a report. This partly relates to the previously discussed material deviation on the adequacy of financial data.

The weaknesses categorized as significant deviations were the 15 noncompliances with accounting principles and standards disclosed by the Comptroller's office.

Relationship of accounting system weaknesses and internal control problems

GSA considered the results of its internal control review process in determining whether its accounting systems conformed to the CG's principles and standards. An accounting system is an integral part of an internal control system in that accounting records and related procedures can contribute significantly to attaining the objectives of the control system. As such, internal control standards are considered in the design and operation of an accounting system.

Weaknesses in internal controls can cause related weaknesses in the accounting systems. This is evident in GSA. The material deviations, one of the major areas of concern, and some of the significant deviations identified in the annual report on accounting systems are similarly discussed in GSA's annual report on internal controls.

GUIDANCE FOR ENHANCING ACCOUNTING SYSTEM REVIEW EFFORTS

GSA should establish a program for meeting the reporting requirement on accounting systems. Its 1983 activities should be formalized to fix responsibilities throughout the agency for meeting the Act's requirement and to describe and implement the various program steps and related controls. GSA's experience in developing an internal control review program should help it develop a more structured and expanded accounting system review program.

Clearly establish responsibilities for meeting the Act's requirement

Because GSA order ADM 5400.39 (see page 14) was issued before the Act was implemented, it says nothing about responsibilities for ensuring that accounting systems conform to the CG's principles and standards. GSA plans to revise that directive to recognize the Act. As part of its revision, GSA should identify specific responsibilities for meeting the accounting systems reporting requirement, including the responsibility for providing central leadership, the responsibilities of top management and other managers, and the IG's role. Some managers who have policy or operational control over accounting systems were already identified during GSA's evaluation of internal controls. These managers were made aware of their internal control responsibilities and held accountable through Senior Executive Service contracts and merit pay plans. GSA should make sure these managers know that their responsibilities also include accounting systems compliance with principles and standards.

Expand the content and coverage of accounting systems assessments

GSA should build on its 1983 efforts by testing the operations of accounting systems to ensure compliance with principles and standards, defining requirements and responsibilities for controlling the quality of accounting systems assessments, establishing a follow-up system to monitor corrective actions, and establishing requirements for maintaining a current inventory of accounting systems.

GSA's 1983 efforts were limited to identifying known weaknesses based on the knowledge of its managers. This is a valuable first step that can be enhanced by selectively testing the operation of accounting systems for compliance with principles and standards. GSA's criteria for selecting program areas for internal control reviews (see page 13) could also be applied to accounting systems. Internal control reviews of accounts receivable and the billing collection process are scheduled for 1984. These reviews of accounting functions should be coordinated with operational tests of accounting systems because of the interrelationship between internal controls and compliance with accounting principles and standards.

Operational tests are a form of quality control in that they are a check on how well systems are operating. In designing these tests, as well as other parts of its accounting system review effort, GSA should build in quality controls, such as documentation requirements and monitoring responsibilities. GSA can benefit from its experience in establishing and implementing an internal control review program and the improvements we identified in chapter 2 for better assuring the quality of that program's results. Documentation needs to show not only the work performed but also the rationale for the conclusions reached. The heads of services and staff offices and the regional administrators need to be aware of their responsibilities for monitoring the quality of assessments conducted by their managers. The Office of Oversight will need to establish controls to ensure effective monitoring occurs.

The inventory of financial management systems that was compiled by the IG will need to be kept current through periodic validation. One way to ensure all systems that support accounting operations have been identified is to analyze economic events that occur as a result of GSA carrying out its orogram and administrative responsibilities. Under this approach, a comprehensive list of economic events, from requesting and obtaining budget authority through reporting the financial results of operations, is prepared. The list is annotated to show the specific transactions and information that should be entered into the accounting systems. The analysis is then compared to the list of accounting systems.

GSA is aware of the need for a follow-up system to track the corrective actions identified in its first annual report on accounting systems and any that may be identified in future reports. The Office of Program Oversight intends to establish a follow-up system but has not yet worked out the details.

Train managers to meet their section 4 responsibilities

Our review of GSA's internal control review program showed that managers need more training on their responsibilities under that part of the Act (see page 23). Since no training was given on the accounting system aspects of the Act, managers may not clearly understand their responsibilities in that area either. GSA should develop a handbook or comparable document describing its program for reviewing accounting systems and that program's relationship to the internal control review program. That document, along with the revised GSA order discussed earlier, should provide useful material for familiarizing managers with GSA's accounting system review program and their role in it.

Additional training will also be needed for any managers expected to test accounting systems for compliance with GAO's principles and standards. Although these managers may be familiar with the principles and standards, they will need training in GSA's methodology for testing the systems against those principles and standards.

CONCLUSIONS

GSA's first year efforts under the Act in determining whether its accounting systems conform with the CG's principles and standards have provided a fundamental start for improving accounting systems and meeting the annual reporting requirement. An inventory of accounting systems was compiled; the major systems were evaluated for compliance with principles and standards; known deviations were listed, including weaknesses known to exist in GSA's other systems; and corrective action plans were identified. GSA now needs to expand the content and coverage of its program and better formalize it.

PROPOSALS, AGENCY COMMENTS, AND OUR EVALUATION

In a draft of this report, we proposed that the GSA Administrator direct the Associate Administrator for Policy and Management Systems to

--establish a program for testing accounting systems in operation.

--establish procedures for keeping the inventory of accounting systems current.

--establish quality control requirements over the performance of steps taken to meet section 4 requirements.

--prepare a handbook describing GSA's accounting system review program and distribute it to all managers of accounting systems and related functions.

--provide managers with basic and technical training on the accounting system review program and their responsibilities.

--revise Order ADM 5400.39 to identify specific managerial responsibilities for meeting the Act's section 4 requirement and to describe the IG's role.

In describing the IG's role, the Administrator should meet with the IG, the Associate Administrator for Policy and Management Systems, and the Director, Office of Program Oversight to explore ways that the IG can help the agency meet its section 4 requirement.

GSA generally concurred with our proposals and expected little difficulty in taking the necessary actions. With that in mind and considering the newness of the Act, we are not including any recommendations in this report. We plan, however, to monitor GSA's progress in addressing our proposals as part of our continuing review of the Act's implementation.

While concurring with our proposals, GSA indicated, as discussed on page 27, that our draft report contained many inaccurate and misleading statements. Both examples it cited pertained to matters discussed in this chapter.

GSA questioned our draft report's categorization of its 38 financial management systems as accounting systems. GSA pointed out that the IG had stated that GSA's financial management network includes only two official accounting systems (systems that produce GSA's official accounting records). GSA was referring to the IG's September 30, 1983, report on financial management as discussed on page 30. The IG's report states that GSA has two official accounting systems. The IG's report and subsequent comments also recognize that GSA has 36 other systems that affect the two official systems, such as by providing financial data to the official systems. Oversight officials agreed that the 38 systems are subject to the section 4 requirement of the Act. We have clarified our report to better recognize the relationship between the two official accounting systems and the other 36 financial management systems that we also refer to as accounting systems.

GSA also questioned our draft report's reference to its accounting systems review as being limited and a quick, ad hoc effort. It felt that those terms implied that GSA's review was not carefully thought out or executed. As our draft report stated, GSA got a late start in reviewing its accounting systems, did not test the systems, and did not formally establish responsibilities throughout the agency for meeting section 4 requirements. We have clarified the summary statements that GSA believed were misleading.

General
Services
Administration Washington, DC 20405

APR 16 1984

Honorable Charles A. Bowsher
Comptroller General of the United States
General Accounting Office
Washington, DC 20548

Dear Mr. Bowsher:

Thank you for the opportunity to review and comment on your draft report entitled "First Year Implementation of the Federal Managers' Financial Integrity Act By The General Services Administration," (GAO/GGD-84-57).

Looking back on our efforts of the past two years, I am proud of the significant accomplishments made by GSA in the implementation of the Act. Our efforts have resulted in an increased awareness among managers of the importance of controls and of accountability for controls; the review of our most vulnerable operations and significant accounting systems; and the full disclosure in our year-end reports of the deficiencies identified by our management officials. Most importantly, we have made a firm commitment to correct these problems.

We are pleased that your draft report has recognized these as well as other accomplishments made under the Act. As with any new initiative, there is always room for improvement. We generally concur with and expect little difficulty in taking the actions necessary to meet your recommendations for improving our process.

At the same time, there are many inaccurate and misleading areas in the report which we believe warrant your attention. One of these is GAO's categorizations of the 38 financial management systems as "accounting" systems. As pointed out by our Inspector General, GSA's financial management network includes only two official accounting systems. Another is your reference to our accounting systems review as being both "limited" and a "quick, ad hoc effort." These statements imply that our review was not carefully thought out or executed. Yet, it was done in accordance with your guidance by the agency managers with the most knowledge of our major accounting systems. We believe these and other such inaccuracies may have led you to conclude that the results of our managers' evaluations were not fully reliable.

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Also, in reading the draft we sense that an overall "audit" approach is being emphasized in interpreting the requirements of the Act. It has been our understanding that fulfilling the Act's intent was meant to be primarily a "management" initiative. We believe that the greatest benefit will be achieved by emphasizing the federal manager's responsibility to identify and correct deficiencies in systems of internal and accounting control.

We would appreciate the opportunity to meet with your staff to discuss our concerns regarding this draft report.

Sincerely,

Ray Kline
Acting Administrator

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